Market Commentary
Fourth Quarter 2017

BLACK CREEK
INVESTMENT MANAGEMENT INC.

Black Creek Global Balanced Fund

The past year proved to be a good one for equities as investors largely shrugged off geopolitical tension and focused on economic recovery in the U.S., Europe and emerging markets (the recovery trend is expected to continue in 2018). Business and consumer confidence also improved. The outlook for the global economy is generally positive, but the headwinds we spoke of in prior commentaries remain.

As we enter the new year, it is worth reflecting on where we stand given recent market strength. Equity market returns over the past five years are meaningfully above long-term averages and are not sustainable, but the path to normalization is unpredictable. As well-known management consultant Peter Drucker said, “Trying to predict the future is like trying to drive down a country road at night with no lights while looking out the back window”.

Equity markets are now well into an eight-year recovery, with valuations looking stretched in many areas of the market. The shift to passive investing has contributed to higher equity valuations as the flow of funds has indiscriminately buoyed all stocks, regardless of fundamentals. Share buybacks by companies have also been a significant contributor to higher equity valuations during this recovery.

During the fourth quarter, both the fixed income and equity components of Black Creek Global Balanced Fund faced challenges; however, for the calendar year both components performed well.

Equity

For the fourth quarter, top contributors to performance include L Brands, Aryzta, FTI Consulting, Varex Imaging and ICICI Bank. Notable detractors for the quarter include SES, Dialog Semiconductor, Now, Grupo Televisa and Inovalon Holdings.

For the calendar year, top contributors to performance include Galaxy Entertainment, ICICI Bank, DSM, Inovalon Holdings and Accor. Top detractors for the calendar year were Now, SES, FTI Consulting, Dialog Semiconductor and Nielsen Holdings.

No new positions were added in the quarter. We sold our holding in Galaxy Entertainment and Synopsys. Galaxy Entertainment Group, based in Macau, is one of the world’s leading resorts, hospitality and gaming companies. The company has benefitted from increased traffic and spending from both tourist and leisure gamblers as well as high-stakes (VIP) gamblers. Given its strong price performance, its valuation is currently less attractive vis-à-vis other opportunities. Synopsys, which provides software, intellectual property and services that engineers use to design and test microchips, was also sold due to strong market performance, which has led to a less appealing valuation.

Fixed Income

Within fixed-income markets, investors continued their preference for corporate bonds over government bonds. Additionally, high-yield corporate bonds (bonds rated below investment grade by credit rating agencies) outperformed those rated investment grade. While we favour corporate bonds, we also hold a portion of our portfolio in government bonds for diversification purposes.

Credit spreads saw further contraction in the fourth quarter as the search for yield continued helping offset the headwinds of rising central bank policy rates (the U.S. Federal Reserve increased its policy interest rate in mid-December by 0.25% to 1.5%). The yield-curve flattening trend (a decrease in the difference between short-term and long-term rates) that has been in place for most of the year also continued as the short end of the U.S. and Canadian yield curves reacted to rising policy rates. The long end of the curve (long-term interest rates) declined on skepticism of any pick-up in inflation expectations.

While the U.S. dollar was generally weaker through the year versus the Canadian dollar – detracting from the fund's fixed-income performance – it was relatively unchanged in the fourth quarter.

Overall, in 2017 investors were less discerning in both equity and corporate bond markets (a rising tide lifts all boats) as political risks waned and investors focused on a growing global economy. With interest rates and bond yields near all-time lows, bond valuations remain elevated. Given the benign market environment, low volatility, tighter credit spreads and generally low interest rates, individual bond selection is even more important going forward.

We remain focused on deploying capital into bonds issued by winning businesses with strong free cash flow, more resilient balance sheets and access to liquidity. As the economic backdrop improves, global monetary policy is expected to tighten further, albeit to varying degrees, which should lead to greater volatility in the bond market and thereby providing opportunities.

Outlook

Although we could be accused of "crying wolf" with our previous warnings of increased market volatility, we have yet to see this volatility despite experiencing a long market run without any meaningful correction. It is worth noting that our portfolios have low exposure to stocks in the market indexes. While this is no guarantee of future performance, we should not be in the direct eye of any coming storm caused by a reversal of passive buying to passive selling. Given where we are in the cycle, the judgement and discrimination that remain at the core of our discipline may be more valuable over the coming five years.

Even as global economic activity has picked up, central banks remain accommodative with their monetary policies and are keeping interest rates low. As we believe we are at an inflection point

regarding these policies, we will continue to warn that small changes in policy can contribute to increased volatility in asset prices. When the status quo is disrupted, outcomes can be uncertain in timing and magnitude.

We are acutely aware of the forces at work on global markets; however, we take a bottom-up approach to investing by looking at the underlying fundamentals of a business. This has not changed over time and is not dependent on the market environment. We seek to build concentrated but diversified portfolios of attractively-priced winning global businesses.

Our investment horizon is long-term and if our investment theses are correct, these ideas should unfold for investors over the next 7–10 years. Because of our long-time horizon, we look to take advantage of any market volatility to upgrade our portfolios with better ideas.

Class F Returns (in %) as at December 31, 2017	**Year-to-date**	**1 year**	**3 year**	**5 year**	**10 year**
Black Creek Global Balanced Fund	8.9	8.9	9.5	11.6	8.5